



Best Places

Nice Try

Michael Maiello, 05.24.04

Hawaii's new Republican governor is laboring to make the islands more business-friendly. That could take a while.

Best Places 2004

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These are the dog days of Linda Lingle's administration. In 2003, her inaugural year, Hawaii's first Republican governor in four decades managed to alter Hawaii's pet-quarantine laws so that a visiting canine can roam free after just five days in a kennel, instead of three months. Oprah Winfrey, ecstatic that she can now pack her pooch on vacation, called the governor to congratulate her.

That's about it for improvements in Hawaii's business climate. When she looks out the window of the governor's mansion each morning, Lingle, 50, who served ten years as a Maui County Council member and then eight as Maui's mayor, sees a capitol building where she has few friends. In Hawaii's two-house legislature Democrats outnumber Republicans 56-to-20. Her opponents have blocked efforts to create local school boards, curtail the islands' growing methamphetamine trade and lower a battery of taxes. "It's obvious that some in the majority have not gotten over losing the governorship," Lingle says.

Two years ago we likened doing business in Honolulu to committing financial suicide, citing the state's high taxes and myriad of costly regulations. It was a bad situation exacerbated by rising unemployment and deteriorating personal income as the tourism industry suffered post-terrorism syndrome. Since then tourism has picked up to near 2000 levels; personal income is up 4% a year for the last five years; unemployment dropped to 3.6% in 2003, against a 5.6% national average. On our list of Best Places for Business and Careers, Honolulu now ranks 113 out of 150 cities. Not great, but at least it's broken out of the bottom 10.

A positive sign: reports that Ripplewood Holdings and Carlyle Group are sniffing around for real estate bargains. Koyo-USA, a Japanese food company, recently invested \$35 million to bottle desalinated Hawaiian seawater to be sold in Asia. Lingle hopes improving Asian economies will help Hawaii, but Standard & Poor's economist Gabriel Petek says they've had no measurable effect so far. At least, he adds, the state's \$3.4 billion in debt is stable.

But Hawaii's ability to pay creditors rests on its status as the most tax-loving state in the union. Its per capita tax burden of \$2,768 is nearly 50% higher than the national average, reports the Tax Foundation. Hawaii derives only 1.5% of its tax revenue from businesses, against a 4.9% U.S. average. But the state collects 47% of its revenue from sales taxes, impacting businesses and consumers alike, compared with a 33.5% average for all states.

Just staying in business is expensive. Employers must provide health insurance even for part-time workers, at an average \$2,900 a year--30% more than two years ago. Lingle argues that costs would drop if new insurers entered the state. But insurers have to be wary of the risk that a left-leaning legislature will find a way to punish them with New Jersey-style rate controls and rules against leaving. The 4% tax on premiums reminds insurers that they have no friends here. Better to stay away.

Lingle wanted to exempt food and medicine from a 4% excise tax, but chose, instead, to pursue a "social justice" tax cut to release 19,000 low-wage workers from having to file tax returns. No luck so far. Her best shot for a tax slash this year is a proposal to exempt the pay of soldiers serving in combat zones from state taxes. That amounts to roughly 8,000 people; the cut is worth about \$20 million.

She's trying to end-run congressional foes by staging "Talk Story" sessions--town meetings in schools and libraries around the state--as well as call-in radio and TV shows. Her talks with voters helped dissuade the legislature from implementing a potentially ruinous cap on gas prices. The law, signed by Lingle's predecessor, would limit gas station profits to 16 cents a gallon and tie wholesaler profits to wholesale prices in California. Because the Golden State's retail prices have climbed past \$2.50 a gallon, Hawaii pump prices would theoretically rocket from a current \$2.07 to \$2.31. The legislature is now likely to put off the law for further study.

Lingle will have to be satisfied with tiny victories. She may be governor, but she's not running the place yet.